Farm Credit
Canada

2023-24 Climate-Related Disclosure Report

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About this report

Report scope and boundary

FCC supports the recommendations of the Financial Stability Board's Task Force on Climate-Related Financial Disclosures (TCFD). We're committed to producing annual disclosures that address these recommendations, align with the Government of Canada's expectations for climate-related financial disclosures and highlight our approach to climate change. We'll enhance this reporting over time.

The contents of this report apply to the fiscal year ending March 31, 2024. All dollar amounts are in Canadian currency unless stated otherwise.

External assurance

The performance data contained in this report hasn't been externally verified. We're updating our environmental, social and governance (ESG) data quality processes to prepare for verifying select data in future reports.

Additional reporting

FCC also provides relevant information on our mandate, corporate strategy, mission, vision and values in our 2023-24 Annual Report, and on our environmental, social and governance impacts in our 2023-24 ESG Report. You can find our reports at fcc.ca/Reports.

Contact

We welcome questions and feedback on our report and initiatives. Send us an email at esg@fcc.ca.

Message from our CEO

We only have six growing seasons to make progress on addressing climate change and meet the 2030 climate goals Canada, and the world, have set.

FCC stands committed to evolving with our customers and the industry, enabling Canadian agriculture and food production to maintain its place as a global leader and make a positive impact on our future. As part of this evolution, we will tell the story of the sustainable practices Canadian producers are already employing, and act as a catalyst for the industry by helping the next generation of Canadian agriculture and food leaders build resilience and thrive in response to climate challenges.

The 2023-24 Climate-Related Disclosure Report highlights our focus, commitment and rigour on assessing climate risks and enhancing the resiliency of FCC, as well as the agriculture and food industry as a whole. When it comes to measuring our footprint and setting emissions reduction targets, we rely on the rigour of science-based methodologies to align with international best practices. Canadians and the Canadian agriculture and food industry take pride in our industry meeting, or beating, international best practices and we're here to support them on that journey.

The 2023 growing season was interrupted by floods in Atlantic Canada, droughts in Western Canada, extreme temperatures in B.C., and wildfires in Ontario, B.C. and Quebec. In response, we demonstrated our commitment and agility by promptly offering five support programs available to customers affected by extreme weather or other crises. This included programs for fruit, maple syrup and cattle replacement. We understand that response does not come in a one-size-fits-all model, and extreme weather events are the beginning of a ripple effect of impacts for the land and our customers. We are committed to responding quickly with customized solutions so our customers receive the precise support they require when they need it most. These programs also come with FCC's responsibility to help those affected become more resilient and disaster-resistant in the future.

We know Canadian agriculture and food has a historic and continued focus on innovation. It is this commitment to innovation that will help our country produce more food for the world while reducing the impact on the planet, and FCC is dedicated to fuelling and financing that progress.

In 2023-24, FCC designed the blueprint of its Sustainable Finance Framework in close collaboration with industry leaders. FCC also launched a Sustainability Capital Investment Program as a pilot to help remove barriers for industry members looking to adopt or increase sustainable management practices.

We are also dedicated to innovation within our own programs and resources. With exciting new sustainability integrations for AgExpert, the program will provide carbon sequestration measurement and allow AgExpert customers to better understand their operation's footprint.

The Canadian ag and food industry is not only a strategic resource to solving climate challenges – it is an essential part of the solution. FCC recognizes the opportunity within the industry's strong production of high-quality agriculture and food products, and we are committed to leveraging this strength.

With dedicated programs, adapted financing and technical support, I believe Canadian agriculture and food will continue to show itself as the leader the world needs in the fight against climate change.

Justine Hendricks,

President and Chief Executive Officer

Message from our CFO

As we reflect on the past year and look toward the future, we at FCC recognize the importance of addressing the risks and opportunities presented by climate change. In recent years, we have seen the devastating effects of climate-related events such as droughts, floods and wildfires, and we understand the urgent need for action.

Our strategy to elevate Canadian food includes being bold in making Canada a global leader in food security and sustainable food production. We are acting as an industry catalyst, driving innovation and value creation in the ecosystem, and enhancing Canada's brand. We are also building for resilience, integrating climate risk into our decision-making processes, and focusing on obtaining more reliable and actionable climate data.

We are proud to offer new financing options and exciting new software tools so that our customers can continue to innovate and invest in sustainable practices. We are also working to better assess and manage climate-related risks and opportunities, including conducting scenario analysis to understand the potential impacts of climate change on our business and developing strategies to mitigate these risks.

Our strategy focuses on working with the agriculture and food ecosystem to deliver all that we can to support customers with the necessary adaption practices. Together, we can address and mitigate effects of climate change and seize new opportunities. We are working to reduce our emissions in line with net-zero aligned pathways. Using a science-based approach, we are evaluating the footprint of our financed emissions and working closely with industry stakeholders to define sector-specific emissions reduction pathways. FCC has been tracking its operational GHG emissions since 2012 and we are continuing to focus on reducing FCC's emissions through a range of initiatives. These initiatives include increasing energy efficiency, reducing travel and purchasing renewable energy certificates.

We are committed to ensuring compliance with evolving climate-related regulations to provide more consistent, comparable and reliable climate disclosures. Our Climate-Related Disclosure provides detailed information on our approach to managing climate-related risks and opportunities.

As we look to the future, we remain focused on obtaining more reliable and actionable climate data to inform our decision-making and support our customers with their transition to a low-carbon economy through sustainable finance offerings and advisory services. Collectively, we'll drive progress towards a more sustainable future. We believe that by working together, we can rise to meet the challenges and opportunities presented by climate change and build a more sustainable future for us all.

Corinna Mitchell-Beaudin,

Executive Vice-President and Chief Financial Officer

Our approach to climate change

Climate change in the agriculture and agri-food industry

Canada's agriculture and agri-food industry accounts for 10% of national greenhouse gas (GHG) emissions.[1] With the global population projected to increase to 9.7 billion by 2050, the agriculture and agri-food industry faces the challenge of increasing production while lowering emissions.[2] Canada can play an important role in this effort. As a major global exporter of agricultural and agri-food products, we have global influence over agricultural-related emissions. Canada already leads in agricultural production, with lower emissions in comparison with our international peers.[3] The industry plans to further reduce emissions, improve resilience and contribute more towards global food security by increasing production and productivity. Building on this strength will help Canada maintain its role as a global agriculture leader and contribute to the national goal of net-zero emissions by 2050.

As a leader in the Canadian agriculture and agri-food industry, FCC is taking concrete steps to support our customers on their transition to a low-carbon economy. We will be a catalyst to help the industry and our customers reduce emissions, manage climate risks and take advantage of new opportunities. Our initiatives leverage our industry expertise to support climate action across the value chain so the industry can adapt and thrive in the face of climate risks and opportunities.

We're committed to helping our customers and partners adapt to the complex challenges and opportunities posed by climate change. Agriculture is particularly vulnerable given its reliance on nature. Our customers and partners immediately and directly feel the impacts of extreme weather and changes to climate systems, such as temperature and rainfall patterns, that could impact the landscape of Canadian agriculture for years to come.

However, this connection to the environment also presents opportunities for the agriculture and agri-food industry to be a leader in climate adaptation and mitigation. The agriculture industry is well-positioned to adapt to climate change by continuing to embrace new technologies and approaches, improving ecosystems, and enhancing nature and biodiversity through nature-based solutions. For example, soil nutrient management practices, which many Canadian producers are familiar with, can help sequester carbon from the atmosphere.

[1] Government of Canada: Greenhouse Gas Emissions

[2] United Nations – Peace, dignity and equality on a healthy planet: Global Issues – Population

[3] The Next Green Revolution: How Canada can produce more food and fewer emissions, RBC Economics & Thought Leadership, November 2022 Global Institute for Food Security: Sustainable Agriculture

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We have many initiatives underway to help producers reduce emissions, including our Sustainability Incentive Program and the Sustainable Finance Framework. We're also developing science-based targets to help reduce emissions from our operations and our lending portfolio. At the same time, we're using more sophisticated approaches to estimate customer emissions and track progress against these targets. We'll use these estimates to adapt our strategies so we achieve these targets, slow down climate change and manage its effects. More needs to be done, and FCC is committed to finding new ways to help customers with climate mitigation, adaptation and resilience.

Key climate trends in the industry

Inclement weather and climate volatility

Physical risks to our natural landscape pose an immediate threat to our customers, partners and stakeholders. Extreme weather events such as droughts, prolonged rain, wildfires and natural disasters can have adverse effects on the agriculture and agri-food industry, adding more pressure throughout the growing season.[4] Agricultural commodities and products are particularly vulnerable to extreme weather, which can disrupt production, transportation and distribution processes, resulting in crop damage and shortages in supply.

Soil health

Soil health can play a critical role in sequestering carbon from the atmosphere and storing it underground, helping the industry reduce emissions and build resilience to climate change. Nutrient-rich soil with thriving microbiome cultures enhances carbon capture and sequestration, helping to further reduce GHG emissions. Studies comparing crop rotations with monoculture practices have underscored the benefits of crop rotation in providing higher yields, creating more resilience during extreme weather, improving soil biodiversity and producing fewer GHG emissions.[5]

Biodiversity

In agriculture, the connection between climate change and biodiversity is fundamental. For instance, rising temperatures and shifting rainfall patterns disrupt animal and plant habitats, adversely affecting the ecosystem. Healthy and biodiverse ecosystems improve the ability to adapt and be resilient to natural disasters. Farming and agriculture are dependent on the availability and condition of natural resources like nutrient-rich soil, clean water, pollination and vegetation. Healthy soil supports a wide array of organisms, from micro-organisms to insects and small mammals, creating a balanced and resilient ecosystem. Climate change can disrupt this ecosystem, increasing pest and disease outbreaks and reducing crop yields, negatively impacting producers and the overall industry.

Stakeholder action on climate

A growing number of organizations in the agriculture and agri-food value chain – including food manufacturers and retailers, producers and equipment manufacturers – have set emission reduction targets. Targets help these organizations proactively address emissions by modifying their operations and actively engaging with and influencing their supply chains. These businesses are also investing in emission reduction technologies, implementing emissions measurement programs and working with partners

[4] Agriculture and Agri-Food Canada: Climate change impacts on agriculture

[5] Agriculture and Agri-Food Canada: Diverse crop rotations shown to increase yields, improve soil health and lower GHGs

like FCC to improve industry knowledge and strategies for addressing climate change. You can read more about our collaboration with industry stakeholders in the Strategy section of this report.

Increased focus on climate agtech

Various stakeholders – including governments, private investors, agricultural companies and research institutions – are investing more in climate agtech innovation, such as artificial intelligence. Agtech innovations offer potential solutions to enhance resilience, optimize resource use and minimize environmental impacts related to climate change.

Evolving climate disclosure landscape

The introduction of standardized disclosure practices has led to greater consistency in climate reporting. In June 2023, the International Sustainability Standards Board issued two disclosure standards, the International Financial Reporting Standards (IFRS) S1 for sustainability-related disclosures and S2 for climate-related disclosures, incorporating recommendations from the Task Force on Climate-Related Financial Disclosures and other sustainability reporting frameworks. The Canadian Sustainability Standards Board published exposure drafts of their standards, Canadian Sustainability Disclosure Standard 1 and 2, in March 2024. These drafts are aligned with the IFRS S1 and S2 standards and their plan is to finalize these standards by the end of 2024.

Organizations will have the option to adopt these standards either fully or partially; however, certain Canadian regulators may mandate their adoption within their respective industries or professions. Regulations such as the Office of the Superintendent of Financial Institutions (OSFI) Guideline B-15 on Climate Risk Management and those in other jurisdictions, such as the European Union's Corporate Sustainability Reporting Directive (CSRD) and California's Climate Corporate Data Accountability Act (SB 253) and Greenhouse Gases: Climate-Related Financial Risk Act (SB 261), may affect large industry players who operate internationally.

FCC's 2023-24 climate progress	
 **Governance**	• Board oversight of climate initiatives strengthened in 2023-24, with select committees taking on specific duties • Added a new vice-president role focused on ESG and climate change
 **Strategy**	• Launched a new corporate strategy with climate as a key focus area • Pursued technologies, partnerships, pilot projects and venture capital investment to support climate action
 **Risk management**	• Used stress testing and scenario analysis to identify, quantify and mitigate the impacts of climate risks and opportunities • Completed a transition risk assessment to identify each sector's sensitivity and exposure to transition risk
 **Metrics and targets**	• Continued to make progress toward achieving our 2025 operational emissions target • Evaluated availability and quality of data to improve emissions measurement and pursue science-based targets for operational and financed emissions

GOVERNANCE


CANADIAN FOOD
OUR FOUNDATION, OUR FUTURE
LES ALIMENTS CANADIENS
NOTRE HÉRITAGE, NOTRE AVENIR

FCC has well-established roles, policies and procedures in place to ensure effective climate governance and accountability across all levels, including the Board and its committees, management and operational teams. Both our Board and management have prioritized climate as a central focus area in our new strategy. For further details, refer to the Strategy section on page 12 of this report.

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Board oversight

This past year, oversight for ESG and climate was strengthened at the Board level to recognize climate's increasing importance in our corporate strategy. The Board of Directors enhanced its oversight of the full ESG program, including materiality assessments, with climate being a key material topic, and the approval of ESG disclosures. Select board committees are also engaged in overseeing ESG and climate-related activities.

Board and committee responsibilities

Our Board oversees corporate strategies concerning climate issues, with ESG and climate as standing agenda items in our Board meetings, which are held five times per year. Additional responsibilities for the climate-related disclosure are assigned to the Audit Committee in 2024, which oversees the climate-related disclosure and recommends approval to the Board.

The Risk Committee supports the Board by ensuring we respect our enterprise risk management framework; it also oversees our response to climate risk through the Climate Risk Treatment Plan and stress testing, which are discussed in further detail in the Risk Management section of this report. The Risk Committee is supported by the Chief Risk Officer and Risk Management Team, as well as the Enterprise Risk Management Committee.

The Corporate Governance Committee ensures that ESG-related responsibilities are appropriately allocated across Board committees. It conducts an annual review of the structure and composition of the committees to ensure they can effectively oversee ESG matters.

Climate expertise and capacity building

Our Board is dedicated to learning more about climate management. In 2023-24, the Board participated in a specialized education session focused on ESG matters, with a high-level overview of climate issues. Directors continued to advance their climate, ESG and diversity, equity and inclusion knowledge through interactive seminars, workshops and discussions facilitated by our FCC team and external speakers. Four Board members have ESG credentials from Competent Boards, with two of them having obtained their credentials this year.

Executive management

Our executive team members play a direct role in FCC's climate-related activities. This includes involvement of our Chief Executive Officer (CEO), Chief Financial Officer (CFO), Chief Risk Officer (CRO), Chief Information Officer (CIO), Chief Marketing Officer (CMO), Chief Operating Officer (COO) and two executive team member committees.

Executive and committee responsibilities

The CFO chairs the ESG Steering Committee, which includes all members of the Enterprise Management Team. This committee directs FCC's ESG program and leads the integration of climate considerations throughout the organization. In 2023-24, our ESG Steering Committee met nine times to receive regular updates on ESG trends and provide feedback on FCC's evolving approach to ESG. These discussions included a focus on climate, recognizing its significance as a key component of FCC's ESG program.

Climate risk identification and management lies with the CRO. The CRO chairs and is supported by the Enterprise Risk Management Committee (ERMC). ERMC helps the Board Risk Committee fulfil its responsibility to oversee FCC's enterprise risk management framework. ERMC also ensures we stay within the limits of our risk appetite through sound policies, frameworks and risk management processes, and they promote and reinforce an integrated culture of risk management. We include climate considerations in FCC's risk management practices by integrating them into our risk register and conducting stress testing.

The Vice-President, ESG is responsible for managing the ESG program, including climate-related initiatives, measurement and disclosures. This dedicated position was created in 2024 to help integrate climate considerations into FCC's operations, policies and decision-making processes. The role also helps us streamline efforts, enhance accountability and make progress across our climate-related risks and opportunities.

At the close of the fiscal year, oversight of climate management transitioned from FCC's CFO to the newly established division, Strategy and Impact, under the Executive Vice-President, Strategy and Impact.

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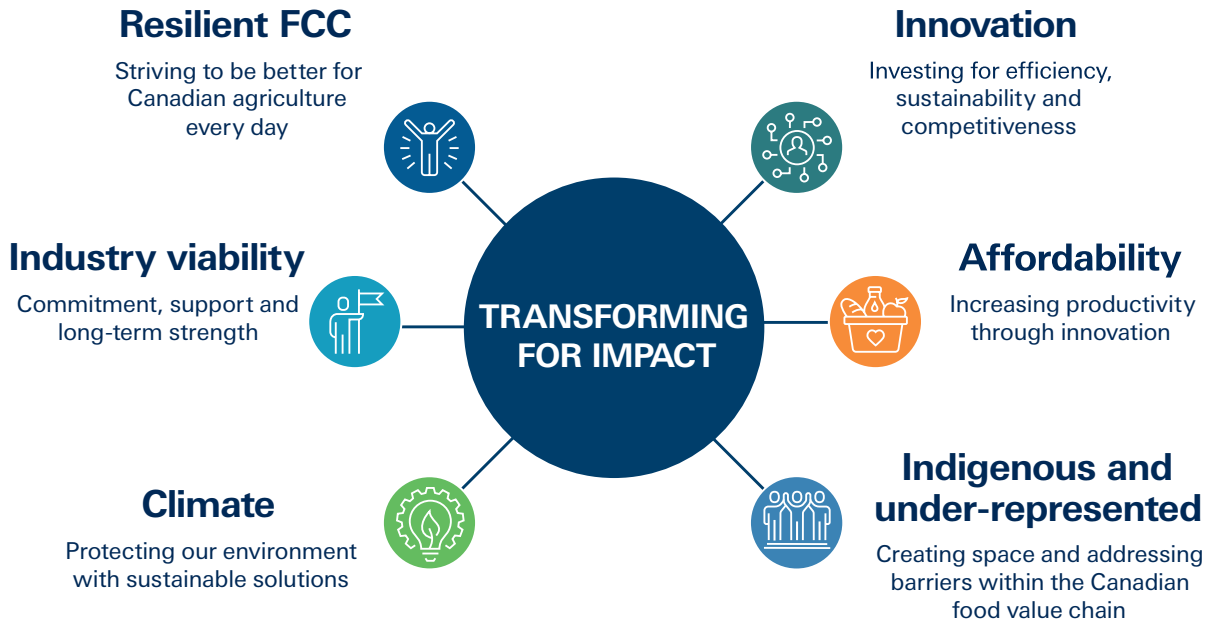
STRATEGY

As a Crown corporation and financial institution dedicated to serving the Canadian agriculture and agri-food industry, FCC is committed to understanding the opportunities that a changing climate presents and mitigating climate risks. We're dedicated to supporting the resilience of the industry and building a sustainable future.

We recently launched our new corporate strategy, which sets our direction for the next five years. Through this strategy, we aspire to help make Canada a global leader in food security and sustainable food production by driving innovation, being a catalyst for value creation and enhancing Canada's brand abroad. To achieve our strategy, FCC is investing in partnerships and playing a lead role in convening the industry to advance current and next-generation leadership, knowledge and collaboration.

To further our commitment to supporting the industry in its transition to a low-carbon economy, we made climate a key impact area in our new strategy. This decision appropriately reflects the role the agriculture and agri-food industry plays in safeguarding the land and the environment. Through our strategy, we'll look for opportunities to:

- protect nature and biodiversity so producers and operators can mitigate risks and adapt to climate change impacts
- help the industry develop sustainable solutions and production practices that aim to reduce greenhouse gas emissions and protect the environment
- make focused investments to accelerate innovation and foster the adoption of technology



In 2022-23, FCC completed a materiality assessment to understand environmental and social focus areas for the company.[6] This assessment identified climate change (including physical risk, transition risk and greenhouse gas emissions) as a core ESG topic. This year, we updated our materiality assessment and identified nature and biodiversity as an additional core ESG topic. Climate change and nature and biodiversity are priority material topics, given their significance to our customers, our partners and the industry.

[6] For more information on our materiality assessment, refer to the 2023-24 ESG Report at fcc.ca/ESGReports.

Alongside the new corporate strategy and materiality assessment, we developed an ESG Framework that consists of four main pillars:

- protect the environment
- build a resilient Canadian food industry
- enhance financial and social inclusion
- maintain our responsible business fundamentals

These pillars cover various material topics from the materiality assessment. Climate and nature and biodiversity fall under *Protect the environment*.

Climate risks and opportunities

Climate change is already increasing the number of acute, high-impact weather- and climate-related events in Canada, resulting in higher costs to individuals, households, communities, businesses and governments.[7] In 2023, we experienced a record number of wildfires across the country and the hottest summer on record for both the planet and Canada, with drought conditions in Western Canada and flooding in Eastern Canada.[8] These disruptions led to production declines that were felt immediately by our customers throughout the value chain and posed real threats to their financial well-being. FCC is dedicated to remaining agile and responsive to help customers address challenges as soon as they happen.

We assess the effects of drought, extreme heat, flooding and other extreme weather events on each of the sectors in our portfolio. Understanding how climate change affects our customers helps us customize solutions to meet their needs.

Transition risks consider long-term policy and legal, technology, market and reputation shifts needed to move to a low-carbon economy. FCC is taking steps to better understand how this transition will impact the businesses we finance, and we've begun looking at our portfolio's exposure to transition risk across different scenarios. Our transition risk management approach addresses policy and regulatory changes, and we plan to update our risk appetite and develop new products and services to support our customers.

The changing climate also presents opportunities for the agriculture and agri-food industry, including potentially longer growing seasons, increased production and increases in the value of arable land (land that can be farmed productively). There may also be new revenue streams or decreased costs as a result of new partnerships and climate-focused innovation.

[7] Government of Canada: 2023 Progress Report on the 2030 Emissions Reduction Plan: Part I

[8] Government of Canada: Environment and Climate Change Canada – Canada's top 10 weather stories of 2023

Spotlight:

Supporting the industry's response to extreme weather

This past year, there were a number of extreme weather events, such as drought, wildfires and extreme cold, that disrupted agriculture production across Canada. FCC often responds to these events by providing financial support tailored to each situation and the customer's individual needs. In 2023-24, our customers had access to five customer support programs in response to events across a variety of sectors, including fruit, maple syrup and wineries. We know our customers must respond quickly to these events that can impact their productivity for the whole season, and we do our best to help them get through these sudden and challenging periods. These support programs were also leveraged by our agri-food and agribusiness customers whose supply chains were disrupted.

Climate-related risks

We've identified potential physical and transition risks that may impact the Canadian agriculture and agri-food industry. As a financial institution dedicated solely to serving this industry, FCC is subject to these risks, too. We'll update this information as we learn more and improve our approach to mitigating climate risks.

Physical risks	Transition risks
Acute physical risks – risks from extreme weather events • Damage to FCC's or our borrowers' facilities • Disruption to the supply chain as a result of damage to infrastructure or impacts to transportation or logistics companies • Impacts on customer productivity, business continuity and financial performance from extreme or irregular weather events such as extreme drought, water stress or wildfires • Increased insurance premiums and potential for reduced availability of insurance for businesses in high-risk locations **Chronic physical risks** – risks from long-term changes in climate patterns • Extended periods of drought impacting productivity and operational costs • Changes to historical climate patterns impacting Canada's agriculture landscape (for example, a decline in water availability or increase in average temperatures) that may require producers to change their farming practices • Increased energy consumption in the food production process for costs like cooling systems and transportation • Cascading changes that negatively affect biodiversity, soil health and other natural resources essential for agriculture	**Policy and legal risks** – new or updated government and regulatory policies that may impact FCC or borrowers • Challenges aligning with national climate targets (for example, net-zero emissions by 2050) • Regulations on emissions (for example, from nitrogen and methane) from agriculture-related sources • Changes to carbon pollution price legislation or evolving carbon pricing initiatives that impact agriculture and our customers **Reputational risks** – risks stemming from changing consumer, employee and community perceptions of a company's contribution to climate change • Harm to the Canadian agriculture and agri-food industry due to a perceived slow transition to the low-carbon economy **Market risks** – shifts in supply and demand for certain commodities, products and services • Shifting customer preferences for agricultural and agri-food products produced with fewer carbon emissions • Changes in trade partner purchasing preferences for Canadian agriculture and agri-food products due to new domestic climate policies • Lack of industry stakeholder alignment (for example, producers, grocers, financers, regulators) on climate objectives **Technology risks** – risks stemming from the need to adopt new and innovative technologies to support the transition to a low-carbon economy • Increased investment requirements for new technology and time to integrate new technologies • Uncertainties in deploying new technology and unforeseen disruptions to operations

Transition risk assessment

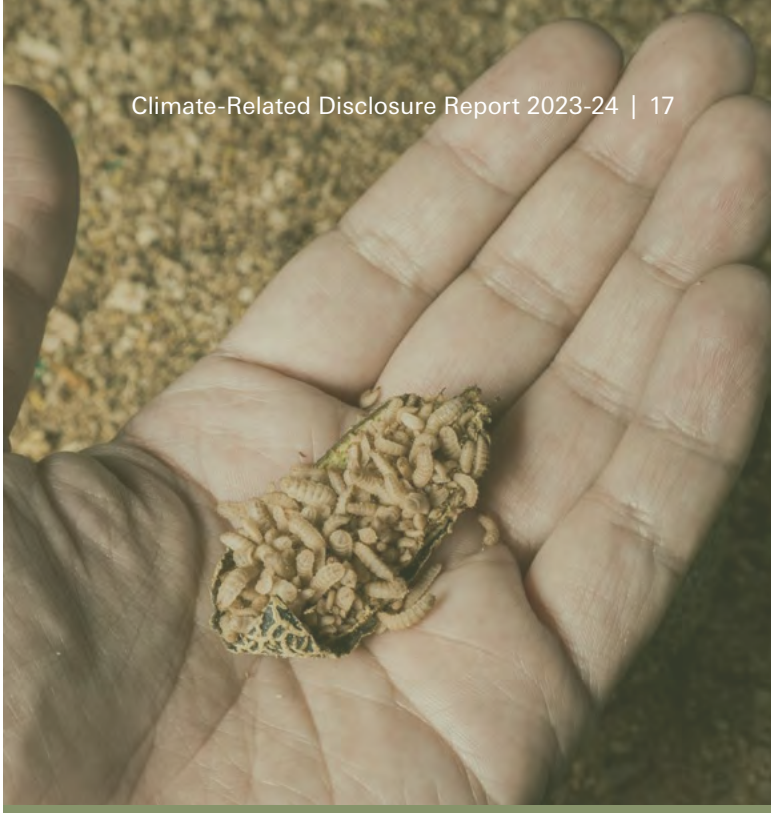
FCC assessed the current sensitivity of the Canadian agriculture and agri-food industry to transition risks. This helped us understand which sectors are more exposed to climate-related transition risks and will inform our future work, such as stress testing analyses.

We leveraged the United Nations Environmental Programme Finance Initiative (UNEP FI) transition risk framework guidelines, also incorporating our internal subject matter experts and specific knowledge of the agriculture sector to ensure applicability across different sectors. Key criteria selection and assessment methodology were determined through expert judgment in climate transition risk, credit risk, industry knowledge, and economic and financial insights. FCC examined the sector's exposure to varying transition risks, including, but not limited to, the sector's exposure to emissions policies as well as producers' and agri-food operators':

- emissions profile based on current Partnership for Carbon Accounting Financials (PCAF) factors
- current direct reliance on fossil fuel
- ability to leverage technology to reduce fossil fuel reliance
- commitment to reducing GHG emissions

Our assessment revealed that the agribusiness, agri-food and beef sectors show higher sensitivity to transition risk compared to other sectors such as dairy, hogs, poultry, and grains and oilseeds. We're enhancing our assessment of transition risks and integrating these findings into our risk management practices and strategy to develop proactive solutions for supporting our customers and sectors that are exposed to transition risks.

There's growing concern that lenders might avoid dealing with producers and agribusiness operators in sectors that are more sensitive to transition risk. However, we recognize the potential for these sectors to be a part of Canada's net-zero journey and believe there are opportunities for growth. We're prepared to support customers in these sectors to help them reduce emissions and decrease their exposure to transition risk. By taking higher-risk positions, we aim to play a pivotal role in helping the industry reach its emission reduction goals. FCC is committed to supporting customers through all financial, transitional, and climate-related shifts to facilitate climate transition.



Spotlight:

Harnessing the superpowers of insects by repurposing food waste

FCC is excited to partner with Entosystem, a Canadian innovator in producing insect proteins. The company recovers rejected fruits and vegetables from grocery stores and restaurants, and downgraded grains from mills. They use this waste to feed their insect larvae, which are then dried and crushed into a rich flour used in the manufacturing of animal food as a replacement for soy and fish protein. The process also creates organic fertilizer from the insect droppings. This circular process repurposes food waste – potentially avoiding emissions created in landfills – and produces a more digestible protein for animal food. FCC provided Entosystem with a $10 million loan to expand operations and support their goal of being a North American leader in insect proteins production.

Climate-related opportunities

The agriculture and agri-food industry has a distinct advantage in harnessing climate opportunities given its relationship with and dependency on natural systems. Many producers have taken steps to improve soil health and nutrient management practices, which can reduce fertilizer inputs and enhance crop yields.[9] Well-maintained soil acts as a carbon sink by reducing the need for tillage and capturing carbon from the atmosphere. Recognizing the potential benefits of these practices, FCC sees an opportunity to work with producers to further advance the adoption of best management practices that contribute to Canada's climate objectives while managing input costs. By leveraging soil health and nutrient management practices, producers can mitigate climate risks and benefit from financial incentives tied to the adoption of practices that reduce emissions or protect nature and biodiversity.

In the long term, rising average temperatures could offer opportunities to extend growing seasons and enhance productivity, particularly in historically colder regions.[10] However, climate change is very volatile, making it difficult to predict long-term impacts with certainty. It can adversely affect employee productivity, disrupt supply chains and increase costs across the entire supply chain.

We've identified potential opportunities for the agriculture and agri-food industry to take the lead on climate mitigation and adaptation. We're excited to work with our customers and industry to pursue these opportunities.

Opportunities	
Resource efficiency – opportunities from improving energy efficiency and reduced environmental impact • Cost savings from investments in more efficient equipment and transportation methods • Construction, purchase or leasing of energy efficient buildings • Improved productivity from implementing beneficial management practices **Energy source** – cost savings and operational benefits from switching to low-carbon energy sources • Reduced costs from the installation or use of renewables or alternative fuel sources • Use of novel technologies to generate bioenergy **Products and services** – revenue generation from new products and services • New lending products that make it easier for customers to mitigate and adapt to climate change • Shifts in demand for agricultural products produced with fewer carbon emissions • Alternative uses for waste in the agri-food system	**Markets** – opportunities from new or expanded markets • Expansion of Canada's leadership in sustainable agricultural practices • Increased productivity and access to new markets globally • Increased output from longer growing seasons and fewer cold-weather events • Potential northwards expansion in agricultural production, where soils permit **Resilience** – adaptation measures to mitigate risks and improve resilience • Development of producers' capacity to adapt to and withstand climate risks • Ability to maintain the agricultural supply chain in the face of extreme weather events • Implementation of resilient infrastructure

[9] Agriculture and Agri-Food Canada: Nutrient Management Planning

[10] Agriculture and Agri-Food Canada: Climate change impacts on agriculture

Strategic climate focus areas

To minimize key climate-related risks and capitalize on opportunities, we're developing strategies for our activities in the following areas:

Venture capital financing for climate innovation

A significant key to helping the agriculture industry build its resilience to climate events is to improve access to capital. So, FCC is increasing our investments in climate innovation initiatives. Through our venture capital program, we support innovative companies and diverse entrepreneurs across all life-cycle stages, provinces and sectors in agriculture and agri-food. We're collaborating with other investors, fund managers and industry participants to foster growth and resilience in the face of climate challenges and opportunities.

In addition to providing capital, we connect our partners with relevant experts to encourage collaboration and build alliances. Each fund we invest in has a unique focus so we can support a diverse range of investments across Canadian agriculture. Through our venture capital program, we hope to become a catalyst for technological change in the industry and a trusted partner for the next generation of climate innovators in Canada.

For further information on our venture capital program, refer to the 2023-24 ESG Report on our website at fcc.ca/ESGReports.

Climate-smart agricultural practices

We support strategies that help build resilience across the value chain. Working with industry partners, we've created a Sustainability Incentive Program to provide incentive payments to customers who meet our partners' sustainability program requirements. This is one way we work with industry partners to understand their unique needs and better tailor the financial and business solutions we provide. For further information on our sustainability incentives, visit our website at fcc.ca/SustainabilityPrograms.

Spotlight:

Venture capital – Power Sustainable Lios

FCC is a proud supporter and investor in Power Sustainable's Lios Fund I. Power Sustainable is an alternative asset manager investing in sustainable strategies, with a focus on renewable energy infrastructure, agri-food private equity and sustainable infrastructure. The Lios Fund makes equity investments in mid-market companies that are well-positioned to accelerate the sustainability transformation happening in the food value chain in North America. It capitalizes on climate transition opportunities and emerging trends like changing consumer preferences towards sustainability, optimization of natural resources for food production and resource efficiency.

Spotlight:

Dairy Innovation West

Dairy Innovation West, a greenfield milk processing project in Western Canada, represents a significant step forward in sustainable dairy production. Overseen by the four western milk boards, the plant is designed to remove water from milk, reducing transportation costs and supporting the growth of Canada's dairy industry. The plant can process 300 million litres of milk each year into concentrated milk products. This process is expected to save $125 million in transport costs over 10 years and cut down on truck use. The facility also recycles its water, showing its dedication to eco-friendly practices. Dairy Innovation West advocates innovation, regional collaboration and commitment to environmental stewardship within the dairy sector.

Sustainability Incentive Program – 4R nutrient management practices

The 4Rs, a sustainable nutrient management practice defined by Fertilizer Canada, refer to applying the right source of nutrients at the right rate and time and in the right place. 4R Nutrient Stewardship involves best management practices that optimize the efficiency of fertilizer use. The goal is to match nutrient supply with crop requirements, minimize nutrient losses from fields and maximize producer profitability.

FCC sees sustainable practices as good business, as they lead to economic and environmental benefits for producers. In 2024, we promoted the benefits of proper soil management through the 4R incentive, which will be available in the fall of 2024 to FCC customers using 4R practices in their operations.

Supporting customers through sustainable finance

In 2024, we will be launching our Sustainable Finance Framework to guide our financing initiatives and find new ways to reward and encourage producers, agribusinesses and agri-food operators to build sustainable operations. Through this framework, we'll allocate special capital to sustain Canadian agriculture and agri-food as a leader in sustainable food production and support our customers' long-term resilience and prosperity. Recognizing sustainability's three dimensions – economic, social and environmental – we'll balance financial viability and risk management with beneficial environmental and social practices. A key component of this framework will involve collaborating with industry stakeholders to understand barriers and challenges encountered by producers, ranchers and agri-food businesses when implementing and adopting beneficial sustainable management practices. FCC is committed to developing sustainable finance products that reduce these barriers and encourage our customers to adopt sustainable practices.

FCC also launched a Sustainability Capital Investment Program as a pilot to help remove barriers for industry members looking to invest in

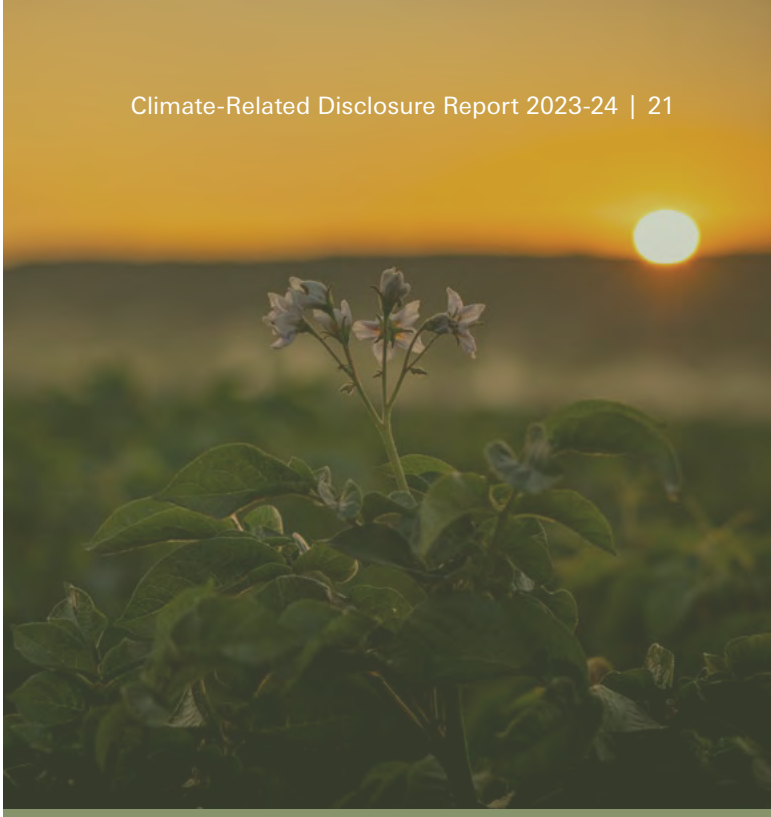
projects that increase their operations' sustainability. The program incentivizes our customers taking on capital projects to invest in equipment, technology, or construction in business and farm operations that allow for the adoption of longer-term sustainable beneficial management practices.

Expanded AgExpert capabilities

FCC's AgExpert software provides accounting and field record-keeping tools for producers to better manage their operations. One of the tools available is Holos, a whole-farm sustainability calculator developed by Agriculture and Agri-Food Canada. It allows AgExpert Field users to share their data with Holos so they can better understand their sustainability footprint. The first data integration with Holos, released in March 2024, focused on helping producers calculate their agricultural carbon sequestration footprint. Future integrations will support other Holos modules to help producers calculate nitrous oxide, methane and carbon dioxide emissions as they build a picture of their operation's sustainability footprint. Through access to more accurate emissions data, producers will be able to better identify areas for improvement and implement targeted strategies to reduce their environmental impact and meet emission reduction goals and targets.

Sharing knowledge: Partnership with Inno-centre

We share business knowledge through our FCC Advisory Services partnership with Inno-centre Canada. The agribusiness and agri-food advisory services program under Inno-centre is designed to support small- and medium-sized enterprises. This year, we launched a pilot project to assist eight agribusiness and food customers with evaluating ESG challenges and opportunities to accelerate growth. These ESG evaluations are crucial steps to assessing whether climate is a material risk and/or opportunity for our customers. Results from this pilot project will be evaluated for future implementation.



Spotlight:

GrowTEC

Grow the Energy Circle (GrowTEC) is an operating biogas facility on The Perry Family Farm near Lethbridge, Alberta. Their farm-scale anaerobic digester handles various organic waste streams, including source-separated organics and agricultural waste. Their operation shows how you can practice sustainable agriculture and save money by diverting waste and generating renewable energy using innovative technology.

FCC has provided financing to GrowTEC since 2023. In July 2022, Evergen Infrastructure Corp. acquired a 67% interest in the plant and helped it pursue a two-phased renewable natural gas expansion project. Phase 1 of this expansion was completed in 2023 and produces up to 65,700 gigajoules of renewable natural gas annually. Phase 2 of the project is expected to increase annual production capacity to 140,000 gigajoules, which is equal to about 1,500 Canadian households' annual use of natural gas. The company has contracts with Irving Oil and FortisBC for the purchase of its gas.

Collaboration with key industry stakeholders

FCC has a long history of building partnerships across industry associations and government, research, academic and financial institutions to advance sustainable agriculture. We believe developing better tools and data with industry partners results in a more unified, consistent and cohesive approach to managing climate risks.

We sponsor events like the Future of Food Conference to bring together industry leaders to discuss sustainable practices and challenges, such as climate change. Our participation shows our commitment to advance sustainable food production and create a resilient food system for the future.

As part of our climate work, we also work with the following groups:

Group	Our work together
Environmental Defense Fund (EDF)	We get technical guidance on beneficial management practices in the agriculture and agri-food industry from EDF's subject matter experts to identify emission reduction opportunities and impacts of climate change. This helps us increase our knowledge and work with the industry on best practices.
Prairie Adaptation Research Collaborative (PARC)	We provide funding to support PARC's research on modelling the impacts of climate change on the agriculture and agri-food industry. PARC has supported us in our own stress testing initiatives so we can understand the complexity of climate impacts.
Global Institute for Food Security (GIFS)	We provide funding for research and development as well as capital infrastructure to GIFS' Accelerated Breeding program, which aims to boost research and investment in under-serviced Canadian crops and livestock. Through this investment, we want to help rekindle productivity growth in agriculture, increase farm gate and value-added revenue, and strengthen Canada's reputation as a dependable and sustainable food producer on the global stage.
Agriculture and Agri-Food Canada (AAFC)	AAFC is coordinating the development of a Sustainable Agriculture Strategy[11] for Canada with various partners. Staying engaged with AAFC helps us benefit from their integrated and coordinated approach. We also leverage AAFC's knowledge and expertise to understand impacts of climate change on agriculture, the emissions profile of the sector (both overall and at the farm level using Holos), and the effectiveness of business risk management programs in managing climate-related risks.
Office of the Superintendent of Financial Institutions (OSFI)	We communicate regularly with Canada's banking regulator, OSFI, to stay informed on evolving climate risk management directives and collaborate on agriculture and agri-food related matters. We've shared insights from our preliminary climate scenario analysis and served as early reviewers for their standardized climate scenario exercises related to agriculture. We consider OSFI's B-15 Climate Risk Management guidelines and international best practices around climate risk when building out our program.
UNEP FI, Rocky Mountain Institute (RMI) and major Canadian banks, World Business Council for Sustainable Development (WBCSD)	We represent the industry and participate in working groups as a member of UNEP FI. We're also collaborating with RMI and four major Canadian banks to identify the key components of, and potential challenges to, disclosure and target-setting for the agriculture and agri-food industry. We're in regular contact with a consortium of Canadian banks to explore opportunities to develop more accurate and specific emission factors for Canadian agriculture portfolios. We're actively engaged in discussions with the WBCSD for their guidance on Banking for Impact on Climate in Agriculture (B4ICA).

[11] Agriculture and Agri-Food Canada: Sustainable Agriculture Strategy Discussion Document

Nature and biodiversity

Agriculture has intrinsic ties to biodiversity and nature. Farming and agriculture are dependent on a healthy ecosystem that requires access to nutrient-rich soil, clean water, pollination and vegetation. Ecosystem health and availability of these resources can also be impacted by agricultural practices. Recognizing this, FCC is committed to exploring nature-based solutions and opportunities for our customers, partners and stakeholders to safeguard the natural resources vital to their operations. For example, our Sustainable Finance Framework will support nature-based solutions through sustainable finance products and incentives.

One example of the link between biodiversity, climate and agriculture is the beef sector. This sector faces challenges because of the high methane emissions it produces. However, producers in this sector can also play a role in maintaining biodiversity through responsible grazing practices that help preserve grasslands and other natural habitats. Portions of Canada's native grasslands, one of the world's most endangered ecosystems, can be conserved or even improved when appropriately grazed by livestock. Well-managed grazing can also contribute to soil carbon sequestration.[12] It will take a comprehensive approach that considers the broader ecological benefits of sustainable grazing practices and land management strategies to address climate change and help preserve nature and biodiversity while also ensuring the financial viability of beef cattle operations.

Sustainability Incentive Program – Ducks Unlimited Canada

In November 2023, Ducks Unlimited Canada (DUC) announced their partnership with FCC's Sustainability Incentive Program to encourage biodiversity in agriculture. The DUC's Marginal Areas Program offers incentives to producers in Alberta, Saskatchewan and Manitoba to convert unproductive cropland into a more biodiverse state by planting perennial forage. DUC extends an upfront incentive through the Marginal Areas Program where producers commit to a 10-year agreement that supports perennial planting costs and reduces land management expenses. FCC customers who are participating in the Marginal Areas Program in the Prairies can receive an additional incentive payment based on a percentage of their total owing with FCC, capped at a maximum payment of $2,000 or $50 per acre of enrolled acres.

[12] Government of Canada: Environment and natural resources – Faster and further: Canada's methane strategy

Spotlight:

Clovermead Farms and Mapleton's Organic Dairy

Clovermead Farms and Mapleton's Organic Dairy is a dairy farm operated by Korb Whale in Wellington County, Ontario. Korb is the seventh generation to farm on this land, where he provides educational farm tours and operates a café and a store where he sells food from his farm and from other local producers.

To improve the sustainability of the farm's operations, Korb helped design the on-farm anaerobic biodigester, which repurposes manure and other material into biogas, bedding and fertilizer. The biogas is used in a generator to produce electricity and heat. FCC has worked with Korb for many years and helped finance the biodigester in 2009. From this experience, Korb helped create Cornerstone Renewables Inc, a company that disposes of organic waste into anaerobic digestors. He often speaks at conferences and events, teaching others about sustainability and the future of agriculture. Korb is an excellent example of a sustainability leader in his community and we're proud to partner with him.

RISK MANAGEMENT

FCC's exposure to climate risk is influenced by our borrowers' resilience and how well they adapt to physical and transition risks. To deliver appropriate advice and tailored lending solutions while managing our portfolio risk, we must understand our customers' exposure to climate risk.

We're strengthening our risk management processes to assess, monitor and report on climate risk across FCC. We've incorporated qualitative components into our risk appetite and updated our Enterprise Risk Management Framework, policies and processes to embed or include climate risk as a separate risk category and material topic. We've also developed a Climate Risk Treatment Plan covering financial and strategic risks, and implemented new practices to identify transition risks, including our transition risk heat map.

FCC uses scenario analysis to explore the financial impacts of climate change in plausible future states. We started building our transition risk scenario analysis capabilities by replicating the Bank of Canada and OSFI's climate scenario analysis pilot[13] with a specific focus on the net-zero 2050 target. In 2023-24, we continued to enhance this process by adding forward-looking climate scenarios to our existing stress testing program and analyzing physical risk scenarios.

We're integrating these climate risk efforts into our existing enterprise risk management approach. As a financial institution, managing risk is critical to our business and embedded in our culture. We have extensive risk governance, policies, processes and systems in place to measure and manage risk. To find out more about FCC's risk management framework, see our 2023-24 Annual Report at fcc.ca/Reports.

Scenario analysis

This past year, FCC collaborated with the Prairie Adaptation Research Collaborative (PARC) to analyze FCC's portfolio exposure to physical risks related to climate change. This exercise focused on Alberta, Saskatchewan and Manitoba, where a significant portion of our customers are located. In partnership with the PARC team, we evaluated physical risk across two scenarios using a set of physical climate indicators.[14]

Scenarios

1.5°C increase in average global temperature, serving as our baseline

3.0°C increase in average global temperature, representing a scenario of heightened concern

Indicators (as measured in these provinces)

- annual and seasonal precipitation
- Standardized Precipitation-Evapotranspiration Index (SPEI)
- number of dry (< 1 mm) days
- number of hot (> 30°C) days
- number of very hot (> 35°C) days
- number of wet (>1 mm) and very wet (> 10 mm) days
- annual average temperature increases

We focused on understanding the impacts of these physical risks on three sectors – beef, grains and oilseeds, and dairy.

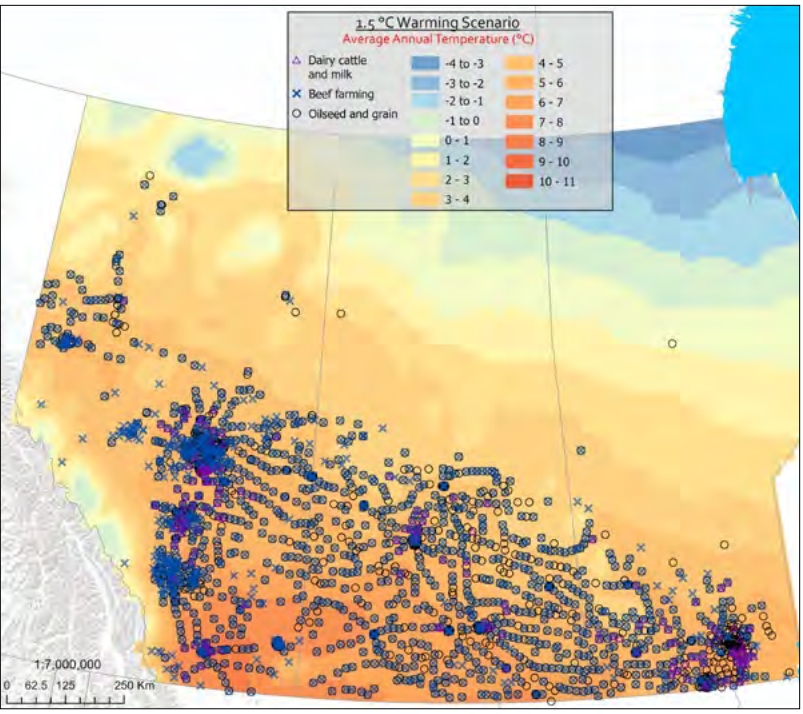
Key findings

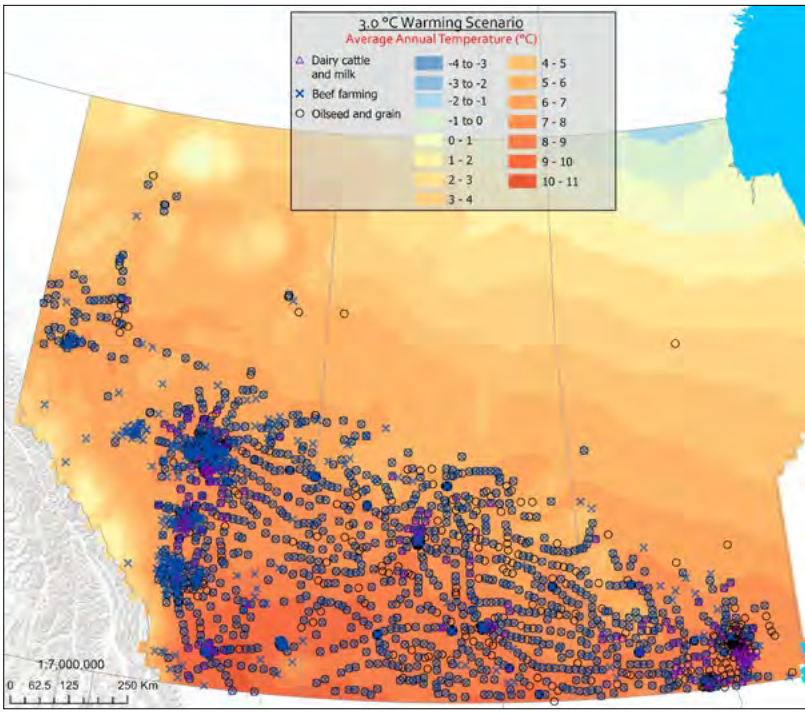
Under both scenarios, average annual temperature change will vary regionally across Canada, with the region extending from the southern border of the country to the boreal forest warming at approximately twice the rate of the global average. Additionally, variations in temperature are likely to increase as the climate changes due to more hot or very hot days in the 3°C degree increase scenario. We also found that most of our customers in the sectors we analyzed are located in areas that will experience above-average annual temperature increases, that is, above 1.5°C and 3.0°C in the respective scenarios. This is mainly due to our customers living around key economic hubs within the Prairies, in regions that are warming faster than the average region.

These findings present potential impacts for each industry, as outlined on the next page.

[13] Bank of Canada and Office of the Superintendent of Financial Institutions: Using Scenario Analysis to Assess Climate Transition Risk

[14] Prairie Adaptation Research Collaborative: Regional Climate Models





- **Beef:** Higher temperatures can lead to heat stress in cattle, resulting in reduced fertility rates, growth rates and overall health, which could lead to higher mortality rates. The potential for reduced water availability and quality can increase the impact of these stress factors. From a financial perspective, these biological stresses translate to increased operational costs for producers due to the need for additional water supplies and cooling infrastructure. They could also face higher costs for feed grains if they don't have enough grass to feed cattle through the summer months, or if the cost of grain rises because of reduced local yields. These increased costs and reduced productivity may lead to increased financial volatility for operators.

- **Dairy:** Heat stress on dairy cows can lead to decreased milk production and lower reproduction. The quality of forage could also decline, affecting milk quality and production. Together, these factors can significantly impact dairy farm profitability. Increased costs for cooling systems and potential changes in feed composition to offset the low quality or lack of suitable forage could further strain producers' financial resources. The reliance on predictable, stable conditions for optimal dairy production makes this sub-sector particularly vulnerable to the unpredictability of climate change.

- **Grains and oilseeds:** Increasing temperatures, if accompanied by adequate moisture levels, could lead to a longer growing season and might lead to increased yields for certain crops. However, the likelihood of more frequent and severe drought conditions, along with higher evaporation rates, could lead to significant yield reductions. Production variability could result in increased price volatility and uncertainty for producers, who may struggle to cover operational costs and meet financial obligations during years of poor yields.

While it's difficult to know for certain what the impacts of climate change will mean for each sector, our partnership with PARC will help us understand potential scenarios so we can better help our customers and partners prepare for the effects of climate change.

While our initial analysis provides valuable insights, we recognized the necessity for further collaboration with subject matter experts to build on this analysis. Our focus going forward will be to refine our analysis of physical risks and develop a key risk indicator framework for physical risks that we can use in discussions with customers and in improving our risk management practices.

Stress testing

FCC developed a custom stress test scenario to evaluate the implications of physical and transition climate risks on the Canadian agriculture and agri-food industry over the next five years. We simulated a scenario that included extreme weather impacts such as prolonged droughts, floods and heat waves in various regions of Canada, and their potential impact on infrastructure and productivity. The scenario simulated changes to carbon policy (for example, a rise in price of carbon, carbon border adjustments, and strict fertilizer and methane emissions targets), changes in consumer demands towards foods produced with lower emissions and rapid interest rate hikes in reaction to a surge in inflation and energy prices. We identified impacts such as:

- reduced crop yields
- increased operating costs
- reduced livestock production
- disruptions to operations and productivity from inadequate resilience to power outages and heat waves
- reduced effectiveness of standard crop insurance programs
- increased costs and complexity of agricultural production from stricter regulation and reporting requirements for nitrogen and methane emissions
- reduced demand for products made with processes that produce higher emissions

These findings helped identify potential impacts on our financial performance, including risks related to farmland values, trade, interest rates and the relevance of our products and services. While the findings are subject to uncertainty given how difficult it is to predict the specific impacts of climate change, this exercise validated the importance of adding climate considerations to our strategy. This information will help us develop new climate-related programs and initiatives, including new risk assessment and management tactics and employee training programs. It also helps us understand how we can respond to climate-related risks while ensuring our financial viability and our customers' financial viability for generations to come.

As we learn more about climate risks, we'll continue to refine our stress testing process. Given the diverse sectors we serve, we'll develop tailored approaches, such as advisory services, to meet the specific needs of customers across our portfolio. Through research and partnerships, we'll get more detailed data on the impacts of climate change on different sectors and regions. This will give us more confidence in our ability to project the financial impacts of climate change on our operations and our customers.

Risk treatment plans

This past year, we developed risk treatment plans to address adverse impacts from physical climate events and the transition to a low-carbon economy on FCC and our customers. We'll use these plans to identify strategic and financial impacts and develop risk mitigation strategies.

Our Enterprise Risk Management team identifies managers for each risk. These risk managers work with key subject matter experts within the organization to develop the risk treatment plan, which includes listing gaps, treatment activities and risk indicators. The risk indicators help us measure the success of our risk treatment plans, both qualitatively and quantitatively. The Enterprise Risk Management team assesses the feasibility of the plan, then gets the Enterprise Risk Management Committee to approve the plans.

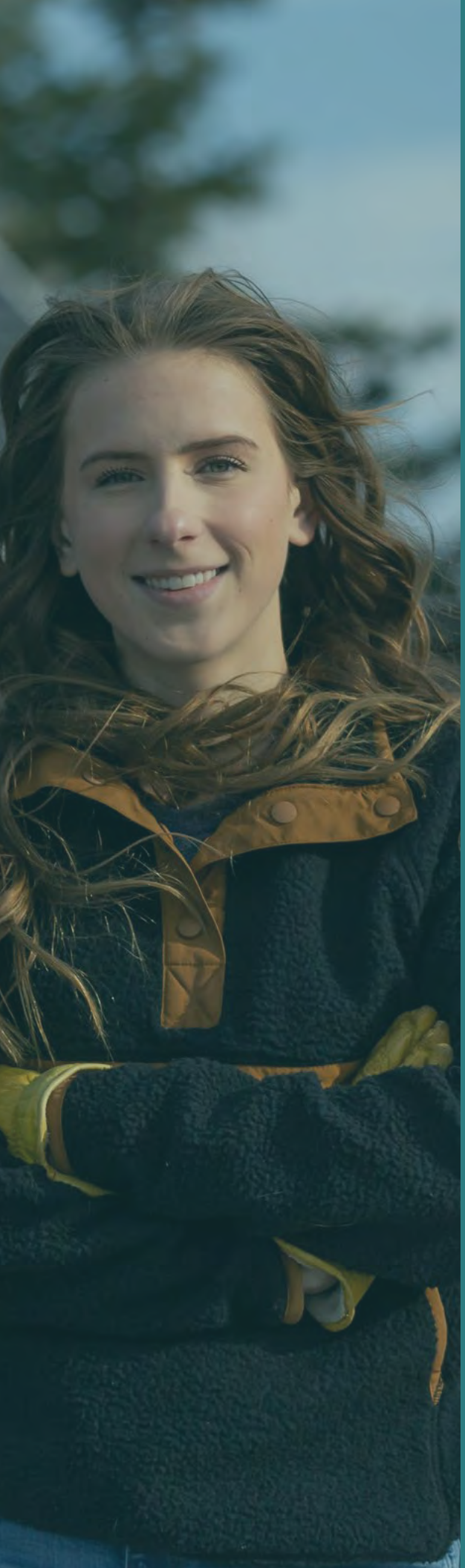
Customer environmental risk

As part of the loan approval process, we work with customers to review and address environmental risk. To expand on this, we launched a pilot program last year to assess evolving climate risks and opportunities facing our largest customers. This pilot program helped us understand our ability to evaluate climate risks in our portfolio and will shape discussions with our customers on climate-related issues.

We do everything we can to safeguard the environment and protect the value of real property we take as lending security. As a federal Crown corporation, we have accountabilities under the Impact Assessment Act to ensure designated projects we're involved with won't cause significant adverse environmental effects.

As we build out our climate program, we'll use input from key customers to determine how best to integrate climate considerations into our financing and non-financing products and services.

METRICS AND TARGETS



FCC is committed to helping the Government of Canada meet its goal to attain net-zero emissions by 2050 for all of Canada. To understand our emissions footprint and track our progress, we measure the GHG emissions associated with our operations and financing activities.

Tracking and transparency help all stakeholders across the agriculture and agri-food value chain better coordinate their efforts on the path to net zero and measure industry-wide progress. We're in the process of updating our previous targets for operational emissions and setting new targets for financed emissions.

Operational emissions and target

FCC has tracked our operational GHG emissions since 2012. We use the GHG Protocol and the International Organization for Standardization (ISO) 14064-1 guidance to measure and report GHG emissions and removals.

Our operational GHG emissions include the following scope 1, 2 and 3 emission sources:

- Scope 1: Emissions from natural gas and other fuels used in heating, ventilation and air conditioning (HVAC) equipment
- Scope 2: Purchased electricity for our offices
- Scope 3: Emissions related to paper usage and business travel

In 2016-17, we established an ambitious target to reduce our operational GHG emissions by 40% by 2025, using our 2011-12 emissions of 8,386 tCO_2e as a baseline.[15] This sets our 2025 goal at 5,031 tCO_2e. To achieve this, we have implemented annual reduction milestones, aiming to decrease emissions by 307 tCO_2e each year through initiatives focused on energy efficiency, smart travel practices and paper reduction. In addition, we purchase renewable energy certificates (RECs).

In 2023-24, our total GHG emissions reached 6,503 tCO_2e, marking an approximate 12% increase over the 2022-23 levels. This rise was primarily driven by increased electricity consumption in our offices, along with higher vehicle travel and paper usage.

This year, our consumption of natural gas decreased by 11%. This decline in natural gas consumption is primarily due to a warmer winter experienced across Canada, particularly in Saskatchewan, Alberta and Ontario, where a large number of FCC offices are located.[16]

Our electricity consumption increased by 9% compared to the previous year's Scope 2 results, yet emissions surged by 26%. This rise is mainly due to an 18% increase in Saskatchewan's emission factor, where over 40% of our electricity consumption occurs.[17]

Our paper usage saw an increase year over year, as a result of additional employees and an increase in business activity.

We have remained committed to ensuring employees understand and are dedicated to purposeful and efficient air travel. In 2023-24, the number of air travel kilometres decreased by 21%. This year, our vehicle travel kilometres increased by 4%. The increase is primarily due to an enhanced organizational focus on visiting customers to maintain strong customer and industry relationships.

[15] GHG emissions are measured in tonnes of carbon dioxide equivalent per year (tCO_2e)

[16] Natural Gas Statistics / Canadian Gas Association: Monthly Data – Heating Degree Days – Canada.

[17] Scope 2: National Inventory Report 1990-2021: Greenhouse Gas Sources and Sinks in Canada, Part 3, Table A13-2 to A13-14, 2021

To align with this year's target of emitting no more than 5,338 tCO_2e, we are purchasing RECs equivalent to 1,165 tCO_2e.

The following table features FCC's operational GHG emission data.

FCC's GHG metrics	Unit	2023-24	2022-23	2021-22
Scope 1: Emissions from natural gas and other fuels used in heating, ventilation and air conditioning (HVAC) equipment	tCO_2e	1,263	1,443	1,381
Scope 2: Purchased electricity for our offices (location-based)[18]	tCO_2e	3,515	2,789	3,220
Scope 3: Emissions from paper usage	tCO_2e	302	143	66
Scope 3: Emissions from business travel	tCO_2e	1,423	1,447	551
Total operational emissions[19] (location-based)	**tCO_2e**	**6,503**	**5,822**	**5,218**
RECs to meet target	tCO_2e	1,165	177	0
Net operational GHG emissions (in line with reduction target of 40% by 2025)	**tCO_2e**	**5,338**	**5,645**	**5,218**
Operational carbon intensity	tCO_2e/$Million revenue	2.32	2.62	3.33
Air travel offsets	tCO_2e	364	-	-
Other carbon offsets and additional RECs	tCO_2e	4,974	-	-
Operational carbon footprint (carbon neutral)[20]	**tCO_2e**	**0**	**-**	**-**

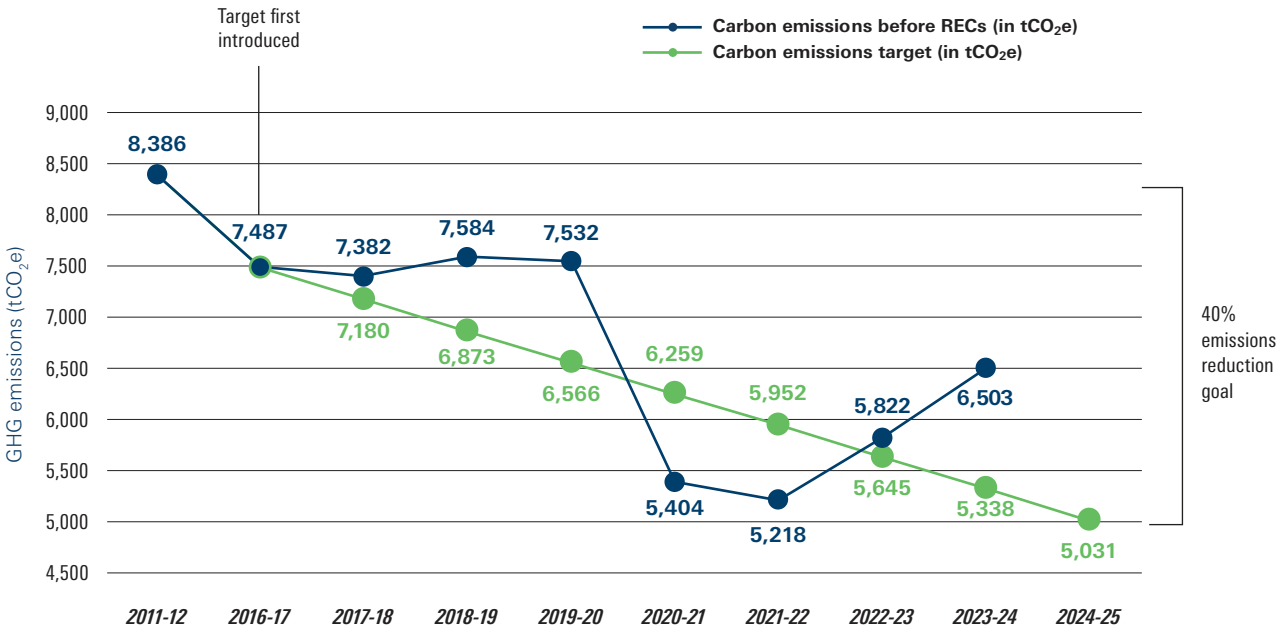
[18] Location-based reflects the average emissions intensity of grids on which energy consumption occurs.

[19] Emission factors were used to calculate the GHG emissions for each activity. Local emission factors were used where available; otherwise, we used default regional, national or international factors. Sources:

- ECCC (2023), Emission Factors and Reference Values Tables1-4
- National Inventory Report: Greenhouse Gas Sources and Sinks in Canada (1990-2021; Part 3)
- Department for Environment Food and Rural Affairs (DEFRA), UK Government Conversion factors for greenhouse gas (GHG) reporting
- ECCC, NIR (2021) Part II, Tableau A6. 1-14
- EPA (2024), Emission factors for Greenhouse gas inventories.

[20] Carbon neutral refers to balancing the amount of carbon emitted with an equivalent amount of reductions and offsets.

Meeting our 40% GHG reduction goal



This year, FCC is purchasing additional offsets and RECs equivalent to 5,338 tonnes of emissions in order to become carbon neutral in our operations.

Next year, we'll announce a new operational emissions reduction target that will put us on a path to net zero in our operations, in line with the federal government's commitment to achieve net-zero emissions by 2050. We have adopted net-zero-aligned[21] science-based targets (SBTs) for FCC's operational carbon footprint to ensure it's credible and aligns with the goals of the Paris Agreement, which the Government of Canada ratified in 2016. This target will replace FCC's current goal.

[21] Net-zero aligned is when organizations reduce emissions in line with the 1.5°C scenario, with an option to procure carbon removal credits for remaining emissions.

Financed emissions and target

The agriculture and agri-food industry represents about 10% of Canada's total emissions.[22] As a lender focused on this industry, our financing activity contributes to these emissions.

Financed emissions[23] account for the largest share of our emissions footprint, which is common for financial institutions. Financed emissions are based on the primary revenue associated with a customer.

Therefore, we're developing new programs, tools and initiatives that will help us work with our customers to reduce emissions across their operations and the entire agriculture and agri-food value chain. We recognize that different sectors may have unique energy requirements driven by varying inputs, operations, constraints, equipment and land use needs. This discrepancy underscores the importance of sector-specific analysis in accurately gauging emissions impact. Measuring our financed emissions on a sector-by-sector level will help us understand these differences from an emissions perspective and develop programs, partnerships and initiatives that are sensible and sector-specific.

We've tracked our financed emissions since 2021 and use the Partnership for Carbon Accounting Financials (PCAF) Standard to calculate financed emissions for business loans.[24] Our process involves using emission factors by sector to calculate emissions based on revenue. We multiply the revenue by the emission factors and determine an attribution factor for each loan based on the outstanding loan value as a share of total assets. This approach aligns with a PCAF Standard score of 4, indicating that our financed emissions data is largely estimated based on financial figures rather than the actual emissions of our borrowers.

FCC financed emissions[25]

Sector	Units	2023-24	2022-23	2021-22
Livestock	$MtCO_2e$	3.3	3.3	3.2
Crops	$MtCO_2e$	3.9	3.5	3.6
Agribusiness and agri-food	$MtCO_2e$	1.1	1.1	1.1
Other	$MtCO_2e$	0.1	0.1	0.1
Total	**$MtCO_2e$**	**8.4**	**8.0**	**8.0**
Loans receivable (gross)	$ Million	$51,028	$47,920	$44,534
Economic emissions intensity	tCO_2e/$ Million of loans receivable	165	167	181

[22] Government of Canada: Greenhouse gas emissions and agriculture

[23] Financed emissions are measured in million tonnes of carbon dioxide equivalent per year ($MtCO_2e$).

[24] Financed emissions = annual revenue amount x (emissions factor by NAICs codes/USD conversion x 1 million) x attribution factor. Attribution factor = (Total owing/total assets). Total assets = total equity + total liability. As per note 92 in the Business Loan asset class of the PCAF Standard, where the sum of total equity and liabilities aren't available, the customer's total assets can be used. Motor vehicle asset class wasn't included at this time as motor vehicle lending is captured within FCC's broader portfolio.

[25] We've restated our 2021-23 figures as detailed in the Data Quality and Enhancements section. The originally reported totals in $MtCO_2e$ were 11.8 for 2021-22 and 11.7 for 2022-23.

FCC's financed emissions total 8.4 $MtCO_2e$. The majority of these emissions are from primary production, which includes livestock, crops and other sectors. Our total financed emissions have increased since 2021, largely due to increased lending activity. Our emissions intensity has decreased since 2021; this is mainly due to changes in portfolio composition (faster growth in our agribusiness and agri-food portfolio, which generally has a lower emissions intensity).

The agriculture and agri-food industry produces emissions through operations and land use. The industry also can reduce emissions by storing carbon in soil and vegetation. The combination of these emission sources and sinks will influence the industry's emissions profile in the future.

We analyzed recognized standards to determine the appropriate methodology for setting SBTs for financed emissions. FCC will support this goal by developing a science-based target for financed emissions. FCC will work in collaboration with the industry by developing targets in a way that is coherent with the economic success of the sectors we serve.

Data quality and enhancements

As is the case with many financial institutions, it's hard to manage the quality and accuracy of financed emissions data. This is partly due to the complexity of collecting emissions activity data from thousands of borrowers, many of whom may not track this data historically or have systems to support this type of measurement.

This past year, we conducted a data quality assessment to better understand how to improve data quality. This included evaluating our financed emissions monthly to account for seasonal fluctuations that typically occur within the agriculture and agri-food industry. To promote accuracy and transparency, we're focused on implementing the proper controls and practices to ensure we can verify our emissions data.

In this year's report, we revised our method for calculating financed emissions following updated guidance from PCAF. We used sector-based emission factors to estimate emissions based on revenue data as opposed to sub-sector-based emission factors. As per PCAF's guidance as detailed in 2023,[26] we have adopted the recommended methods for adjusting emission factors for inflation using the Consumer Price Index and for currency conversion using the 2019 exchange rate. As a result, we have restated our financed emissions from previous years in this report to ensure accurate alignment with these established practices.

[26] Partnership for Carbon Accounting Financials (PCAF), Part A – Financed Emissions

This change in methodology reinforces our industry's growing need for more specific and granular emissions data based on actual operations and inputs as opposed to sector-based estimates. FCC is actively contributing to the development of a more accurate framework for agriculture emission measurement. This involves compiling research and engaging with industry stakeholders to improve the accuracy and availability of emission factors data, such as identifying physical emissions factors (based on output) as opposed to economic emissions factors (based on revenue).

Such efforts are crucial for increasing confidence in our emissions data and identifying opportunities to support our diverse industry more effectively. Being able to identify emission sources accurately will allow us to develop more customized and relevant decarbonization programs for customers and help financial institutions better track agricultural emissions.

Going forward, we'll continue to improve our own metrics and targets. This work will include developing a more robust data-tracking process and methodology to support our carbon accounting program and working with partners to ensure that our methodologies are aligned across the industry and with emission reporting standards.

Data limitations

Where revenue data is inaccurate or unavailable, we use emissions intensity factors based on outstanding loan value from the part of the portfolio where we have accurate revenue data. This estimation methodology applies to approximately 20% of our portfolio's loan value.

We report emissions in tonnes of carbon dioxide equivalent (tCO_2e), as PCAF emission factors used by FCC are provided in tCO_2e, which include conversions for methane and nitrous oxide. We can't report separately on methane and nitrous oxide, which we believe are material and relevant to FCC, because they're significant emission sources in the agriculture and agri-food industry.

Farm Credit Canada

Looking forward

FCC will continue to enhance our risk practices to better understand the climate risk landscape of the industry and our customers, taking into account the diversity and uniqueness of the sectors we serve. This includes enhancing our risk assessments to get a more granular understanding of how physical and transition risks will affect our portfolio and working with customers to understand their specific emissions data and climate vulnerabilities.

As an agriculture and agri-food lender, we're developing a Sustainable Finance Framework to guide our lending activities and create financial offerings that promote sustainable farming practices. We've launched our Sustainability Incentive Program and are exploring new opportunities for working with the industry to offer more incentives. We also plan to further integrate climate into our growing advisory services and AgExpert offerings to support our customers' climate adaptation and mitigation strategies.

We understand that agriculture is changing in Canada and believe these programs will help FCC support the current and next generation of producers. We know certain groups may be impacted differently as our industry and economy adapts to climate change. We're dedicated to being a trusted partner for all producers across Canada through these transformations by helping them reduce risks and empowering them to seize opportunities.

We'll adapt our reporting to meet new requirements as new global sustainability frameworks – such as the International Financial Reporting Standards (IFRS) disclosures and Taskforce on Nature-related Disclosures (TNFD) – become standard. The International Sustainability Standards Board has also commenced research on integrating broader insights on nature and human capital from the TNFD into future standards.

With the launch of our new strategy, we're excited to build on our climate-related successes. Our actions are guided by our desire to be bold, be an industry catalyst, create value in our ecosystem and enhance Canada's reputation as a key actor in global food security. We'll work closely with our customers and partners to help them achieve their climate objectives, celebrate their successes, showcase their progress on a global scale and develop tailored financial solutions to support them.

DREAM. GROW. THRIVE.

fcc.ca

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